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SUBJECT: A/S SULLIVAN & A/S LOWERY ENGAGE SALVADORAN SOCIETY ON  
SPREADING BENEFITS OF CAFTA-DR

11. SUMMARY. In a series of meetings, November 27-29 joint State/  
Treasury delegation led by EEB Assistant Secretary Sullivan and  
Assistant Secretary Lowery discussed extending the benefits of  
CAFTA-DR to all parts of society with a wide cross-section of  
Salvadoran society. Consistent themes included the need to spread  
CAFTA-DR benefits from the existing exporters to small and medium  
enterprises, the challenges of providing credit to micro, small, and  
medium enterprises, the difficulties a small farmer faces in  
exporting to the United States, and the need for more uniform  
customs procedures. END SUMMARY.

ACCESS TO FINANCE FOR SMES  
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12. Financial sector leaders, including representatives of major  
international banks, local microfinance lenders, and private sector  
banking associations, discussed small and medium enterprise lending  
on November 27. Principal issues cited included the difficulty in  
conducting credit analysis for businesses that do not have  
collateral and the higher reserve requirement mandated for  
non-banking micro lenders. A/S Lowery and local Multilateral  
Investment Fund (MIF) representative also briefed on Treasury's  
Small and Medium Enterprise Financing Support, run together with the  
Multilateral Investment Fund of the International Development Bank  
(IDB) and the Overseas Private Investment Corporation (OPIC).

13. In discussions with small and medium business leaders on November  
28, entrepreneurs reported difficulties in obtaining credit, but  
also noted progress in making credit more available. Rodolfo  
Papini, owner of Pahnas, which exports frozen pupusas and tamales,  
said that when he first started the company four years ago the only  
funding available was from his family. Now, however, a combination  
of new private lending and government support made it possible to  
finance business expansion.

STRUGGLES OF THE SMALL FARMER  
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14. According to leaders of prominent Salvadoran non-governmental  
organizations (NGOs), CAFTA-DR does provide opportunities to reduce  
poverty, but after only two years the main beneficiaries of CAFTA-DR  
have been the big firms already exporting to the United States.  
Rural agricultural communities faced significant hurdles. First,  
organizing small producers, whether to connect them with exporters  
or to take advantage of economies of scale, remains difficult.  
Second, opening a business in El Salvador requires too many steps  
and is too expensive. Third, producers either lack the knowledge of  
sanitary and phytosanitary standards (SPS) to export to the United

States or could not obtain the necessary permits from USDA. The leaders cited value-added agricultural products like fresh (not frozen) exotic fruit, which could command a premium in the U.S. market, as an example of exports blocked by SPS issues.

#### AMERICAN BUSINESS ISSUES

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15. At an AmCham El Salvador-hosted lunch, representatives of leading American businesses cited customs delays, a lack of consistent standards, and concerns in the energy sector as impediments to prospering and expanding under CAFTA-DR. Some firms reported that the time required to clear customs had actually increased in the last six months, which they attributed to increased traffic, a lack of customs staff, and a desire to "make up revenue lost" under CAFTA-DR's reduced tariffs. Similarly, business leaders described a lack of consistent, transparent regulation as a barrier to expansion. In particular, the judicial sector could not be counted on to enforce the "rule of law" consistently and transparently.

#### UNIVERSITY STUDENT CONCERNS

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16. The delegation also engaged approximately 70 students, professors, and Fulbright alumni at Universidad Centroamericana "Jose Simeon Canas" (UCA) to answer their questions related to trade between the U.S. and El Salvador. Students, primarily from the business and economics program, asked about whether small countries and small and medium enterprises would be at a disadvantage when it comes to reaping the benefits of CAFTA-DR. Students also inquired about whether the U.S.-El Salvador relationship would change under a different government. The delegation emphasized that the USG would work with any government that remained committed to common

SAN SALVAD 00002409 002 OF 002

principles of democracy, open markets, and free trade.

#### REGIONAL AND INFRASTRUCTURE ISSUES

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17. The delegation received a briefing on Central American integration issues at FUSADES, a leading Salvadoran think tank. Presenters included Vice Minister of Economy Johanna Hill, private sector representatives and the Executive Director of Plan Pueblo Panama Maria Teresa Rendon. The regional electric grid and fiber optic cable system was discussed, as was the need for further development of connections between ports through highway development, something which the MCC programs will help address. The private sector representatives noted customs delays and the need for regional customs integration. In addition, they said that more labs were needed to meet health, sanitary and phytosanitary standards and that more work was needed to develop common regional norms and standards.

18. The directors of FOMILENIO, the implementing entity for the MCC Compact, briefed the delegation on the status of El Salvador's efforts to implement their Millennium Challenge Account projects. Executive Director Juan Jose Lloret spoke about FOMILENIO's action plans and efforts to ensure transparent procurement procedures and compact execution.

19. A/S Sullivan has cleared this message.

Glazer